



DEVELOPMENTS IN FINANCIAL MARKETS AND OPEN MARKET OPERATIONS

No point-in-time-safe data on System Open Market Account holdings was available on or before the cutoff for this meeting, so the Committee had no updated figures on the total size, composition, or period-to-period change in SOMA holdings before it. Accordingly, this section is limited to what could be verified from that source. It bears emphasizing that this coverage would in any case pertain to SOMA holdings only and not to the results of repurchase or reverse repurchase operations, for which no point-in-time-safe data source currently exists; the absence of such figures should not be read as implying anything about the conduct or scale of those operations.

STAFF REVIEW OF THE ECONOMIC SITUATION

The staff review characterized economic activity as running above trend. The Chicago Fed National Activity Index stood at 0.62, a reading consistent with growth exceeding its longer-run pace. Labor market conditions remained firm: the unemployment rate was 5.6 percent, only modestly above the estimated natural rate of 5.41 percent, and initial claims for unemployment insurance were 329,000, a level the staff judged moderate and showing no sign of deterioration. Core PCE inflation on a twelve-month basis was 2.18 percent, somewhat above the 2 percent objective. The federal funds rate stood at 5.5 percent, and M2 was reported at \$3,593.4 billion.

The most recent Beige Book, covering commentary for November, was summarized alongside the incoming data. The staff noted that its District-level commentary was consistent with the picture of continued expansion evident in the national indicators. Taken together with the tight labor market and above-trend activity reading, the Beige Book material supported a characterization of the economy as still expanding with resource utilization elevated, and with inflation modestly above target rather than accelerating.

STAFF REVIEW OF THE FINANCIAL SITUATION

Financial conditions were described as calm and broadly supportive. The financial stress index was low at 0.1668, and equity market volatility was subdued, with the VIX at 14.48. Credit conditions appeared healthy: the Baa corporate spread was tight at 1.28 percentage points, giving no indication of strain in corporate borrowing. The Treasury yield curve remained positively sloped though flat, with the 10-year/2-year spread at 0.12 percentage point, a configuration the staff read as carrying no recession signal. The 3-month Treasury bill stood 0.28 percentage point above the current funds rate, an embedded spread the staff interpreted as consistent with market participants anticipating some near-term firming.

STAFF ECONOMIC OUTLOOK



The staff outlook drew on the forward-looking quantities available. With the estimated neutral real rate (r^*) at 1.703 percent and the nominal funds rate at 5.5 percent against core inflation near 2.2 percent, the implied real policy stance was already meaningfully above neutral, suggesting policy was on the restrictive side even before any further action. Inflation momentum was estimated at 0.0, indicating no fresh upward impetus to prices beyond the modest gap to target, while unemployment momentum was -0.15, pointing to a labor market still tightening rather than easing.

The reference rules spanned a wide range. The Taylor rule, the Balanced Approach rule, and the ELB-adjusted rule each pointed to -75 basis points, reflecting the small inflation and output gaps measured against the estimated neutral rate; by contrast, the First-Difference rule, which responds to momentum rather than levels, indicated +25 basis points. The reference rules were flagged as reliable. Netting the pull of the level-based rules toward easing against the momentum-based rule's firming signal, the framework's loss-minimizing recommendation was a hold at 0 basis points. The projection this implied was one in which prior tightening continued to propagate through credit and demand channels, with policy near the point where further restraint becomes optional and conditions likely to hold roughly steady absent a fresh inflation or employment shock.

PARTICIPANTS' VIEWS ON CURRENT CONDITIONS AND THE ECONOMIC OUTLOOK

In their initial predictive positions, participants divided principally on the size rather than the direction of further tightening. Several members opened in favor of a 50 basis point increase. The member most focused on inflation risk emphasized that core PCE at 2.18 percent remained above the 2 percent target, that unemployment at 5.6 percent left little slack against the 5.41 percent natural rate, and that the Chicago Fed activity reading of 0.62 pointed to above-trend growth; with financial stress low and no fragility signal, this member judged a further firm move defensible. The member attentive to financial stability made a parallel case, noting that a stress index of 0.1668, a VIX of 14.48, and a Baa spread of 1.28 all described calm, healthy markets able to absorb a hike. The member favoring a literal reading of the data likewise leaned toward 50 basis points on the strength of the incoming activity and inflation figures.

Two members opened at 25 basis points. The member most concerned with employment searched the data for signs of labor-market weakening and found none, but cautioned that adding a large step on top of already-substantial prior tightening risked over-restricting a labor market only barely above its natural rate. The member weighting market signals argued that the 3-month bill sitting 28 basis points above the funds rate pointed to roughly one 25 basis point move being priced, not two, and that the flat-but-positive curve was consistent with limited additional firming ahead. In the second round these arguments proved persuasive to the larger group. The member focused on inflation was moved by the



28 basis point bill spread and by inflation being only modestly above target, revising to 25 basis points while continuing to support inflation containment. The stability-focused member reasoned that delivering exactly what markets had priced would avoid a surprise capable of jarring spreads or volatility, and that a 50 basis point move risked pulling the flat 2s10s curve toward inversion. The data-focused member concluded that the concrete magnitude evidence favored 25 rather than 50. The result was convergence on a single 25 basis point step.

Turning to the framework's loss-minimizing recommendation of a hold, participants engaged directly with the tension between the level rules calling for -75 basis points and the momentum-based First-Difference rule calling for +25. Most participants set aside the deep-cut level rules, judging it imprudent to ease while inflation ran above target with resource utilization tight. Several observed that with r^* at 1.703 percent and the real policy rate around 3.3 percent, policy was already restrictive, which weakened the case for either aggressive easing or further large tightening. The employment-focused member endorsed the hold outright, reasoning that with unemployment momentum negative, claims moderate, and growth above trend, no employment threat justified a cut, while no fresh inflation breakout justified more restraint. The stability-focused member also endorsed the hold, judging that prior tightening was still working through credit channels, that no stress demanded accommodation, and that holding neither destabilized markets nor abandoned inflation vigilance.

Other participants agreed with the direction implied but not the magnitude of zero. The inflation-focused member found the First-Difference logic most persuasive and would have tolerated slightly more restraint given above-target inflation, though acknowledging the hold was defensible. The market-focused member weighted the embedded bill-spread and curve signals above the framework's netting and continued to see markets as pricing firming rather than a hold, agreeing on direction while disputing a zero magnitude. The data-focused member described the hold as the most literal balance of the opposing signals but noted that momentum and market pricing tilted the read slightly firmer. A recurring theme across these views was that the divergence between the members' firming lean and the framework's hold was small, and that both pointed to a stance near neutral rather than to any decisive easing or renewed aggressive tightening cycle.

COMMITTEE POLICY ACTIONS

On the predictive question of the appropriate policy action at this meeting, the Committee's final vote was unanimous for a 25 basis point increase, with all five members concurring. On the separate question of the framework's loss-minimizing recommendation of a hold at 0 basis points, the Committee did not divide on direction but split on magnitude: two members endorsed the recommendation as written, and three members registered partial agreement, supporting the



near-neutral direction while favoring modestly more firming than a zero move. No member declined the recommendation.